

Message Text

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64/67

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 SS-20 NSC-07 STR-08 L-03

PA-04 PRS-01 USIA-15 INT-08 AGR-20 DRC-01 /184 W

----- 059290

R 212104Z MAR 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 7880

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY LA PAZ

AMEMBASSY LIMA

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C O R R E C T E D C O P Y (NBANKERS RATE CORRECTED BOTH PARA 1 AND
2 TO READ E525 VICE E540)

EO 11652: N/A

TAGS: EFIN, AFSP, CI

SUBJ: CHANGES IN EXCHANGE RATES

REF: (A) SANTIAGO 1170; (B) SANTIAGO 1202

1. SUMMARY: EFFECTIVE MARCH 21, CENTRAL BANK DEVALUED BANKERS'
(BASIC IMPORT-EXPORT) RATE TO E525 AND REVALUED BROKERS' RATE TO E740

.

EMBASSY BELIEVES CHANGE IN BANKERS' RATE WAS JUSTIFIED BUT THAT
REVALUATION OF BROKERS' RATE MAY WELL INCREASE BLACK MARKET
ACTIVITIES - OPPOSIT EFFECT WHICH GOC WAS SEEKING. END SUMMARY

2. CENTRAL BANK ANNOUNCED FOLLOWING EXCHANGE RATES EFFECTIVE
MARCH 21 IN TERMS OF US DOLLAR (PREVIOUS RATES IN PARENTHESES):
BANKERS' RATE E525 (470); LARGE COPPER MINES EXPORT RATE E263 (235);
BROKERS' RATE E740 (750).

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3. CHANGES IN BASIC BANKERS' AND LARGE COPPER EXPORT RATES REFLECT INFLATION IN CHILE. THESE SUBSTANTIAL DEVALUATIONS MAY ALSO REFLECT IBRD JUDGMENT THAT THIS RATE HAS BEEN UNDER-VALUED IN RECENT MONTHS (REF B).

4. CHANGE IN BROKERS' RATE WAS ACCOMPANIED BY REDUCTION IN TAXES ON SUCH TRANSACTIONS AS AIRLINE TICKETS FROM 53 PERCENT TO 10 PERCENT. AS A RESULT CHILEANS TRAVELING ABROAD MAY NOW PAY FOR TRANSPORTATION AND OBTAIN FOREIGN EXCHANGE TRAVEL QUOTA AT E814 INSTEAD OF E1150 PER DOLLAR. DIPLOMATIC MISSIONS, INTERNATIONAL ORGANIZATIONS, AND INCOMING TOURISTS EXCHANGING DOLLARS FOR ESCUDOS WILL RECEIVE ONLY E740.

5. IN ANNOUNCING ABOVE CHANGES, CENTRAL BANK PRESIDENT CANO SAID REVALUATION OF BROKERS' RATE WAS DESIGNED TO PUNISH THOSE SPECULATING AGAINST THE ESCUDO AND TO ELIMINATE THE BLACK MARKET.

6. COMMENT: EMBASSY BELIEVES DEVALUATION OF TRADE RATE WAS NEEDED BUT APPRECIATION OF BROKERS' RATE PROBABLY WAS AN ERROR. AT EFFECTIVE RATE OF E814 PER DOLLAR, TRAVEL ABROAD BECAME VERY CHEAP AND WILL LIKELY RESULT IN ADDITIONAL DEMANDS ON OFFICIAL FOREIGN EXCHANGE RESOURCES. TO EXTENT CENTRAL BANK MAKES FOREIGN EXCHANGE AVAILABLE, THERE WILL BE REDUCED DEMAND FOR DOLLARS IN BLACK MARKET FOR THAT PURPOSE. HOWEVER, WITH MORE CHILEANS TRAVELING ABROAD AND WITH THE AVAILABILITY OF OFFICIAL DOLLARS FOR TRAVEL EXPENSES LIKELY TO CONTINUE LIMITED, DEMAND WILL RISE FOR BLACK MARKET DOLLARS TO SUPPLEMENT THOSE OBTAINED THROUGH OFFICIAL MEANS.

7. MOREOVER, THERE IS AN INCREASED INCENTIVE (NOW THAT BANKERS' AND BROKERS' RATES ARE CLOSER TOGETHER) FOR CHILEANS TO BUY BLACK MARKET DOLLARS TO TAKE ADVANTAGE OF THE CENTRAL BANK "LAUNDERING" (BLANQUEANDO) REGULATION WHICH REPORTEDLY HAS BEEN EXTENDED THROUGH JUNE 30. (THIS PERMITS CHILEANS HAVING DOLLARS TO LEGALIZE SUCH HOLDING BY PAYMENT OF TAX AND USE REMAINDER TO IMPORT CERTAIN GOODS.) ON BALANCE, THEREFORE, EMBASSY BELIEVES CHANGE IN BROKERS' RATE WILL NOT ELIMINATE BLACK MARKET AND MAY EVEN ADD FUEL TO IT. CHILEAN ECONOMIC TECHNICIANS AGREE WITH THE ANALYSIS BUT SAY THEY WERE OVERRULED IN CENTRAL BANK DELIBERATIONS. LIMITED OFFICIAL USE

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8. HOWEVER MISGUIDED, CENTRAL BANK MOVE TO REDUCE BLACK MARKET ACTIVITY WAS UNDERSTANDABLE RESPONSE TO RAPID RECENT GROWTH IN SUCH TRANSACTIONS HERE. ON MARCH 20, WIDESPREAD BLACK MARKET TRANSACTIONS WERE OCCURRING AT E900. ALTHOUGH SIZE OF BLACK MARKET IN RELATION TO OVER-ALL FOREIGN EXCHANGE OPERATIONS IS SMALL, IT DOES HAVE PSYCHOLOGICAL IMPORTANCE AS REFLECTION OF PUBLIC CONFIDENCE IN GOVERNMENT ECONOMIC MEASURES.

AS SUCH, WE JUDGE LATEST MOVE WAS FAIRLY SERIOUS ERROR.
END COMMENT.
POPPER

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